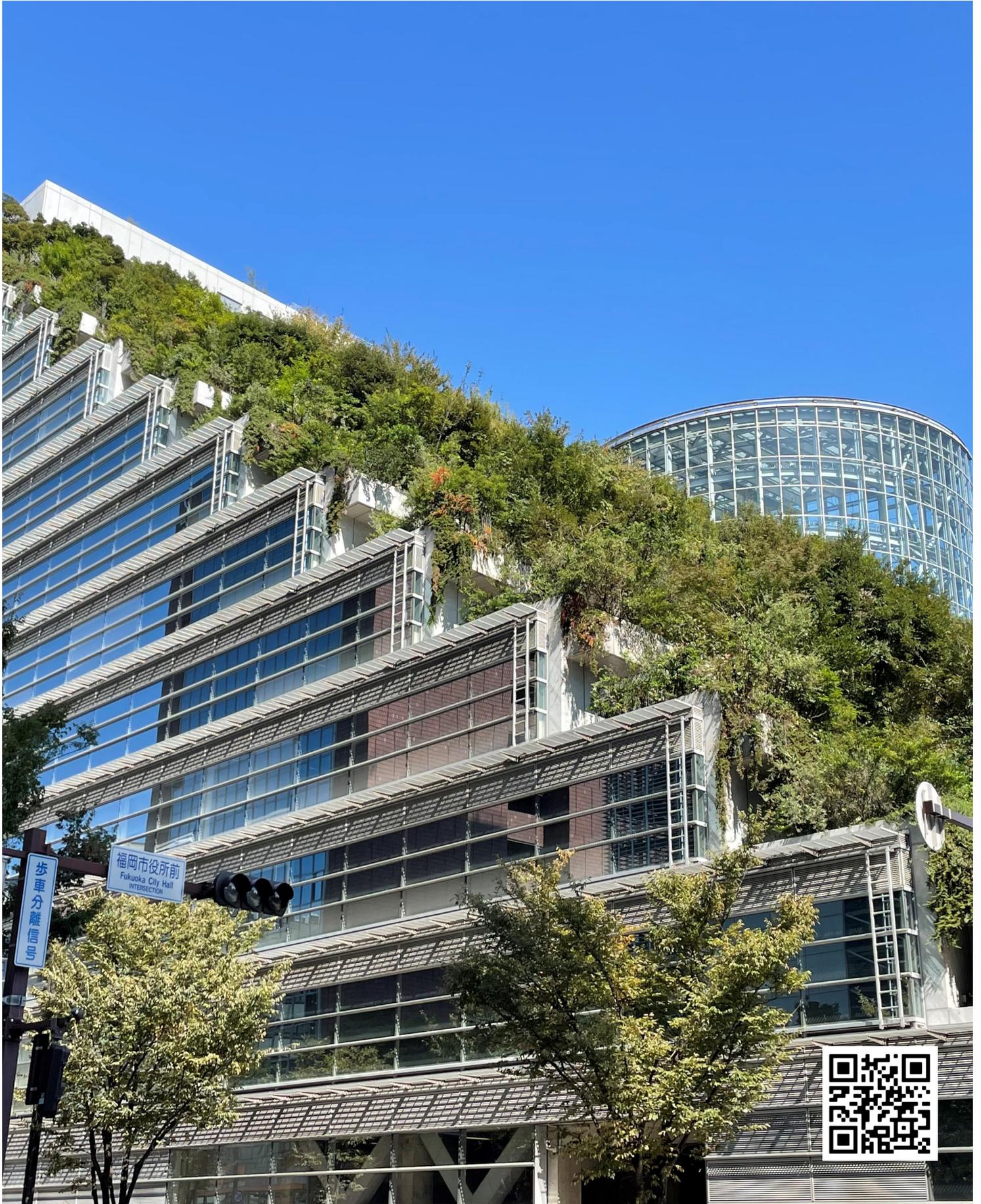


Japan - November 2021

Q
SPOTLIGHT
Savills Research

Fukuoka Residential Markets



Fukuoka's residential market remains resilient

Summary

- Fukuoka has been the fastest growing city among major regional cities in Japan.
- The city's compact and convenient layout, young demographics, and accommodating attitude towards new ideas attract students, workers, and entrepreneurs.
- With the leadership of its media-savvy mayor, Fukuoka is striving to become a leading city in Asia with start-ups, digital transformation, and redevelopment.
- The central areas, such as Tenjin and Hakata, have seen sound demographic growth, and redevelopment projects such as Tenjin Big Bang and Hakata Connected should further help to make these areas attractive.
- As a major beneficiary of inbound tourism until the pandemic, the progress towards the normalisation of international travel is a welcoming development for Fukuoka.

INTRODUCTION

Fukuoka is a rapidly growing city with its population increasing 4.9% between 2015 and 2020, the highest among the major 20 cities¹ in Japan. While its economic size is smaller than Tokyo, Osaka, and Nagoya, Fukuoka boasts an established status in the Kyushu region². The city continues to attract young migrants, primarily from other areas in Kyushu and from the neighbouring Chugoku region. Additionally, unlike other major regional cities such as Osaka and Nagoya, Fukuoka has experienced positive population growth from natural causes (births minus deaths) and has maintained a higher percentage of younger demographics.

Since the city announced its Startup City plan in 2012, Fukuoka has been trying to attract domestic and overseas entrepreneurs. For instance, Fukuoka is one of the first cities to offer "start-up visas" to prospective business operators. The city also runs a public-private partnership Startup Café and encourages demonstration experiments using city infrastructure. Perhaps encouraged by these initiatives, major IT companies such as LINE, Mercari, and Paidy have chosen Fukuoka as their first regional operation

¹ 20 ordinance-designated cities, which does not include Tokyo's 23 wards where the growth rate was 5.1% between 2015 and 2020.
² Kyushu includes Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, and Kagoshima.

location. Furthermore, there are promising Fukuoka-based start-ups including iQPS whose second satellite was launched with Elon Musk's SpaceX rocket. Additionally, companies such as Hope Inc. and Vega Corporation that originated in Fukuoka became listed recently.

In addition to its start-up culture, the compactness and convenience of the city is part of Fukuoka's appeal. Indeed, the city centre, Hakata, is only five minutes from Fukuoka Airport by subway, and is also close to Hakata Port. Another major commercial hub, Tenjin, is also five minutes away from Hakata by subway. Moreover, as illustrated by the small difference in daytime and night-time populations³ in Fukuoka, its residential areas are generally situated closely to commercial areas. In fact, the mayor of Fukuoka often compares the city with Seattle for their geographical similarities.

Prior to the pandemic, Fukuoka also benefited from the boom in inbound tourism helped by its proximity to other Asian regions. While the pandemic has effectively stopped inbound tourism, the city is expected to see further growth in this sector once international travel resumes.

³ The night-time population is the number of residents in Fukuoka. The day-time population incorporates the flow of workers and students who commute in and out of the city.

MAP 1: Fukuoka City



Source Savills Research & Consultancy

Furthermore, the delivery of large-scale commercial projects, such as Tenjin Big Bang and Hakata Connected, bodes well for future growth. The former plans to redevelop 30 buildings around Tenjin Station by 2024 while the latter plans to redevelop 20 buildings around Hakata Station by 2029. Encouragingly, the first building of Tenjin Big Bang, Tenjin Business Center, boasts face rents of JPY30,000 per tsubo, a rental level closer to top rents in Osaka and Nagoya and has had solid leasing activity despite the ill-timed opening during the pandemic. International names such as Boston Consulting Group are expected to open offices here. Moreover, the ongoing extension of Nanakuma Line will provide a new connection between these two areas and improve their accessibility within the city, which will likely further increase the value and rental levels of the Tenjin area.

Fukuoka’s residential market remains sound with its fundamentals underpinned by its positive migration and vibrant business environment. The city’s compact and convenient layout, young demographics, and accommodating stance towards new ideas are attractive characteristics. Major redevelopment projects such as Tenjin Big Bang and Hakata Connected should further boost the city’s growth.

FUKUOKA AS A KEY REGIONAL CENTRE

Fukuoka is strongly connected with the wider Kyushu region, and its growth is supported by the many people that migrate to the city. According to data released by Fukuoka City, in 2020, about 8,500 people came from other areas in Kyushu in net-migration, re-affirming Fukuoka’s role as an urban centre within the region. Furthermore, over 70% of these migrants are aged between 20-29, showing the large

number of young people moving in.

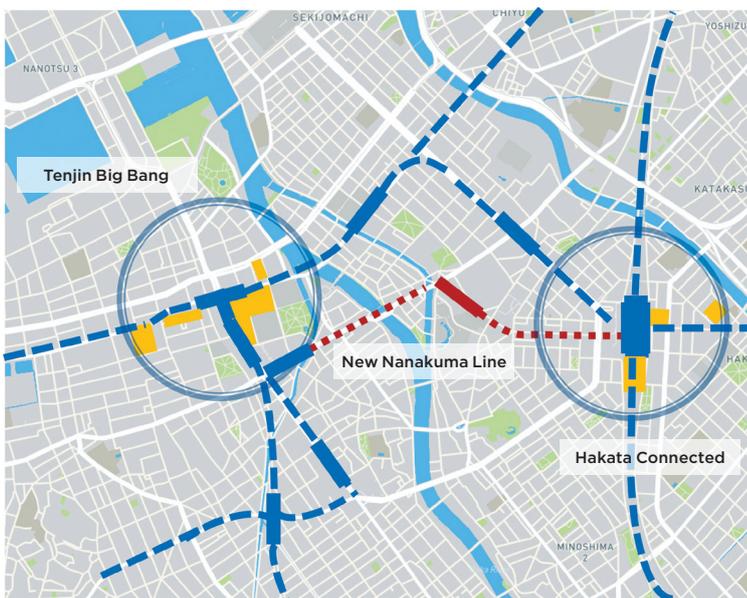
The overall migration trends in Fukuoka indicate that the city dominates on a regional scale, although it admittedly experiences a net population outflow to the Greater Tokyo and Greater Osaka regions. This rings particularly true for the Greater Tokyo area, which is undoubtedly the

central focus of national migration patterns because of its overwhelming share of major companies and educational institutions, reflecting a deeply rooted migration trend in Japan that is unlikely to change in the near term.

Nevertheless, Fukuoka benefits because of Kyushu’s geographical distance from other metropolitan areas. Looking at net-migration patterns from prefectures in Kyushu, Fukuoka is clearly the top destination and surpasses all other major cities by a large margin (Graph 3). People in Japan tend to stay close to their hometowns, and moving into Fukuoka is a reasonable choice for people from Kyushu as it provides the best balance between job opportunities and proximity to home.

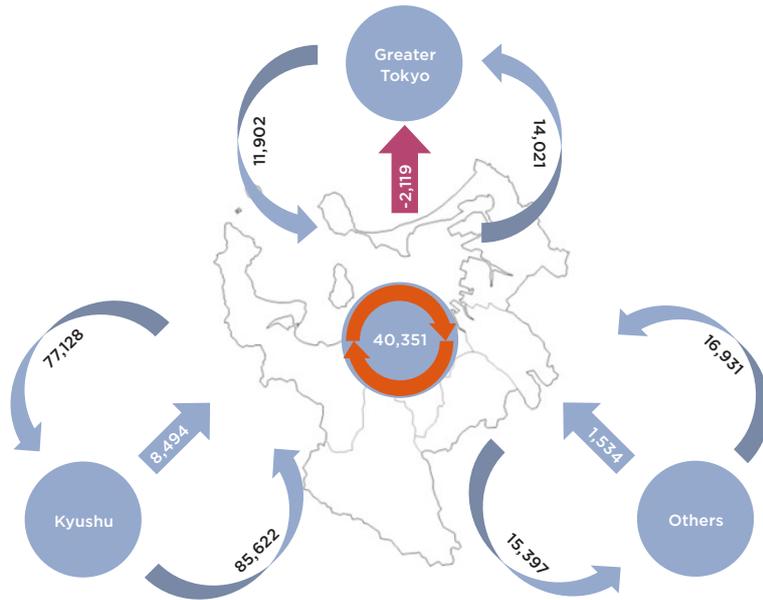
Fukuoka’s population growth comes from two sources – the aforementioned migration to the city, and natural causes (more births than deaths). Regarding the latter, Fukuoka’s population grew organically by 0.6% between 2015 and 2020. Moreover, in Hakata ward and Chuo ward where demographics are younger, the increase from natural causes was 1.3% over the same period. This is uncommon in Japan where the number of deaths has outpaced births on a national level since 2005. Indeed, other major cities including Osaka City and Nagoya City have also started seeing more deaths than births. Nonetheless, population increments from natural causes have also been weakening gradually in Fukuoka, with some recent months even seeing declines. As such, migration movements to the city

MAP 2: Fukuoka Redevelopment Map



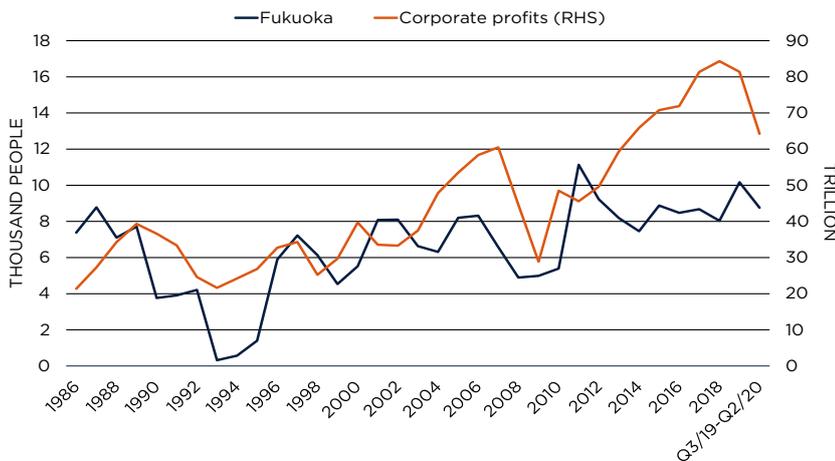
Source City of Fukuoka, Savills Research & Consultancy

GRAPH 1: Fukuoka's Migration Flows, 2020



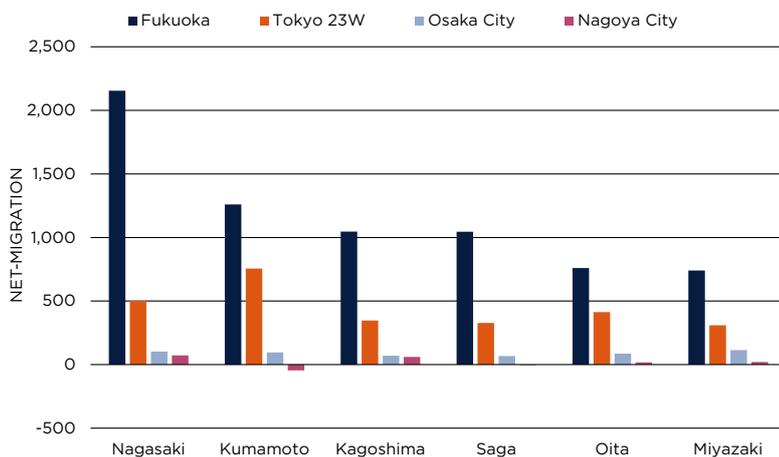
Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy

GRAPH 2: Japanese Net-migration to Fukuoka and Corporate Profits, 1986 to Q2/2020



Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy

GRAPH 3: Net-migration from Prefectures in Kyushu to Major Cities, 2020



Source Ministry of Internal Affairs and Communications, Savills Research & Consultancy

will be increasingly important in supporting Fukuoka's population growth.

Overall, Fukuoka's population should continue to grow at a steady pace due to employment and education opportunities in the city, as discussed in the following sections. In addition to these pull forces, a push force from other prefectures also seems to be at play because of the rapidly ageing population in other prefectures in Kyushu and some nearby prefectures in Chugoku, which serves as an impetus for younger people to move out of those regions, to Fukuoka's benefit. As discussed in our [Regional Residential Markets March 2021](#), municipalities with higher proportions of an elderly population are financially weaker and have less growth potential.

EDUCATION

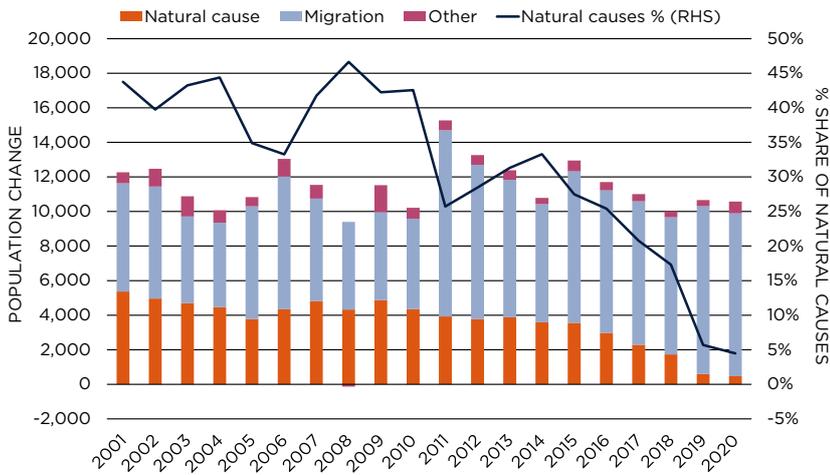
Fukuoka is a popular university destination in the Kyushu region and continues to draw a large number of students each year. According to the Ministry of Education, Culture, Sports, Science and Technology's yearly survey in 2020, about 27,000 students entered universities in Fukuoka Prefecture. Of that figure, approximately 30% came from the surrounding Kyushu region, and the majority of the remainder came from the nearby regions of Chugoku and Shikoku. This indicates that Fukuoka continues to be the prevailing centre within the region.

Fukuoka is home to many highly ranked universities such as Kyushu University, Fukuoka University, and Seinan Gakuin University. One notable trait of these educational institutions in Fukuoka is that they are concentrated in the city and highly accessible from city centres. Indeed, the concentration ratio of institutions for higher education in Fukuoka is one of the highest among Japan's 20 major cities, and the city also boasts one of the highest proportions of students.

Furthermore, the appeal that Fukuoka poses to international students has increased in recent years. International students in Fukuoka Prefecture have increased from 5,731 to 19,260 between 2005 and 2020 according to Japan Student Services Organisation. This total number of international students is the third highest in the country after Tokyo and Osaka. Moreover, the aforementioned Kyushu University had the fourth largest number of international students among Japan's national universities, accepting 2,300 students from overseas in 2020, not far from other prestigious national universities such as Kyoto University (2,600).

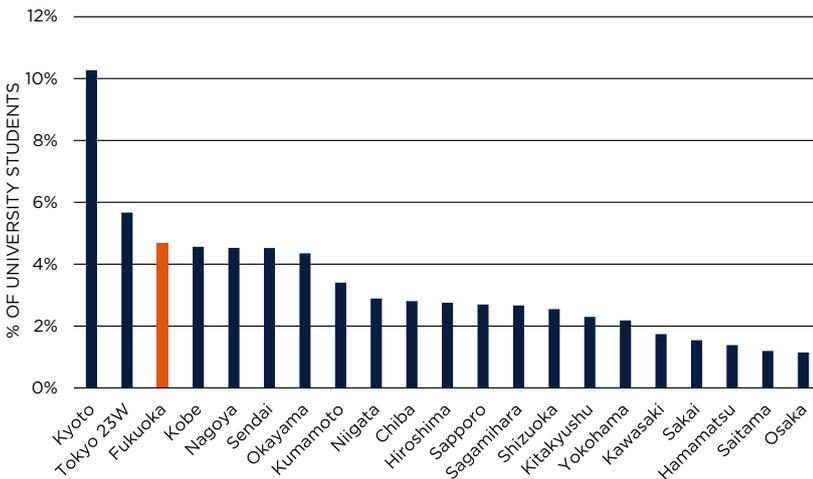
Similar to our discussions on Osaka and

GRAPH 4: Japanese Population Changes by Cause in Fukuoka, 2001 to 2020



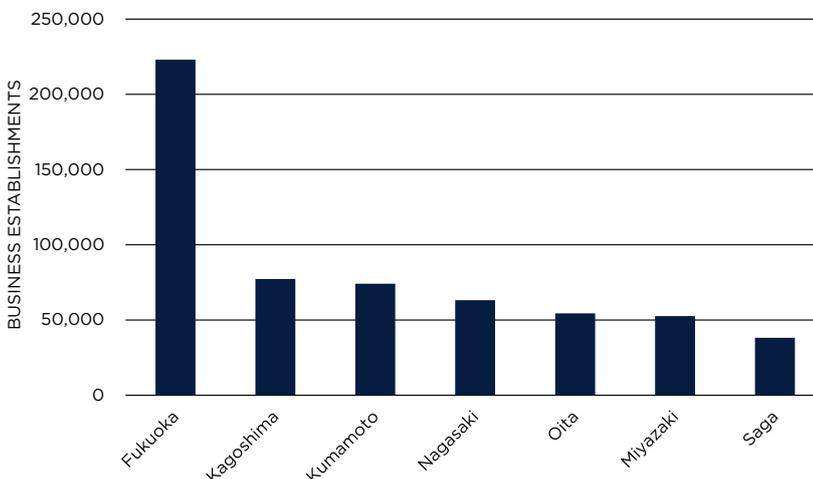
Source City of Fukuoka, Savills Research & Consultancy

GRAPH 5: University Student Ratios by City, 2020



Source Ministry of Education, Culture, Sports, Science and Technology, Ministry of Internal Affairs and Communications, Savills Research & Consultancy

GRAPH 6: Kyushu Business Establishments by Prefecture, 2016



Source Kyushu Bureau of Economy, Trade and Industry, Savills Research & Consultancy

Nagoya in our previous reports ([Osaka Residential Markets August 2021](#) and [Nagoya Residential Markets October 2021](#)), the large student population in Fukuoka adds vibrancy to the area and anchors residential market demand. Indeed, attracting well-educated, future entrepreneurs is of strategic importance especially for Fukuoka, which aspires to be the “Start-up City”.

EMPLOYMENT

Fukuoka’s economy is noticeably smaller than those of Tokyo, Osaka, and Nagoya. However, within the Kyushu region, Fukuoka clearly has the largest economic base, and its status as a regional economic hub drives population inflows from nearby prefectures.

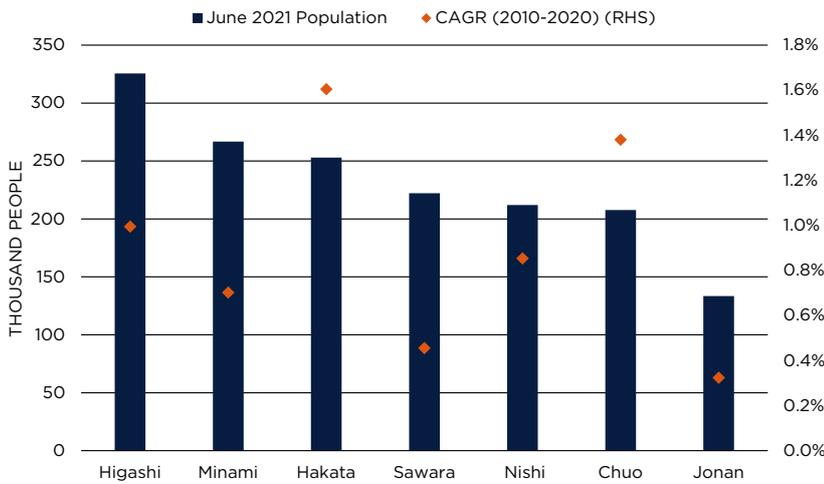
A notable factor adding momentum to the local economy is Fukuoka’s push for cultivating a start-up culture, led by Fukuoka’s current mayor Takashima. Takashima, a former news broadcaster, became the youngest mayor in Fukuoka’s history and has spearheaded the “Start-up City” plan launched in 2012. He has been re-elected twice with overwhelming popularity, which validates the support that Fukuoka residents have for his vision.

A notable example of Fukuoka’s initiative is its public-private partnership with LINE, a popular social media operator, that has helped the digital transformation (DX) of public services including the Fukuoka Smart City Community that launched in October 2020. The mission of the partnership is to make Fukuoka a leading smart city through a collaboration among prominent regional companies. For instance, through Fukuoka City’s LINE account, residents can gather vital information when some natural disasters are affecting the city.

While these DX initiatives are helpful for the residents, the city’s accommodating attitude towards new ideas is also attractive for those looking for real world test grounds. For instance, Welmo, a prospective healthcare start-up, chose Fukuoka to kick-start its business because the founder felt that the city was serious about advancing information communication and technology (ICT) applications in the healthcare sector. The company has also done several demonstration experiments in the city. Kyushu University is also conducting a social experiment using video camera images to locate people with disabilities who require assistance.

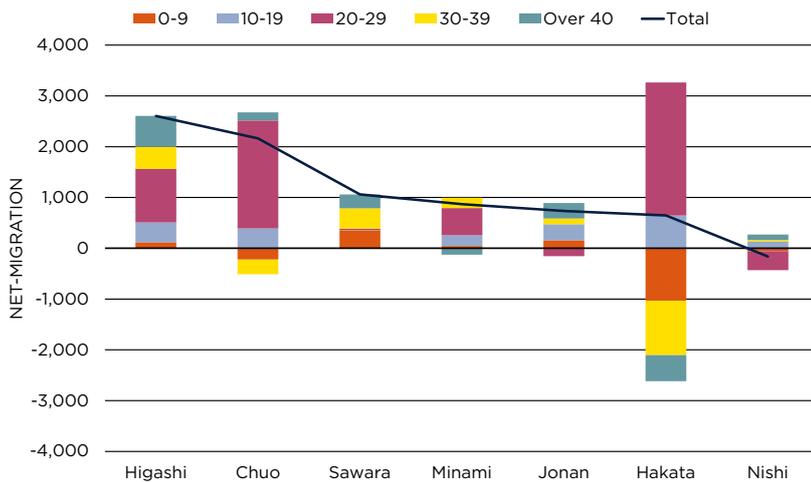
Fukuoka is also eager to attract entrepreneurs from overseas. In 2015, one year after Fukuoka was designated as one of Japan’s National Strategic Special Zones, Fukuoka became one of the first cities to

GRAPH 7: Fukuoka Population as of June 2021 and CAGR* between 2010 and 2020



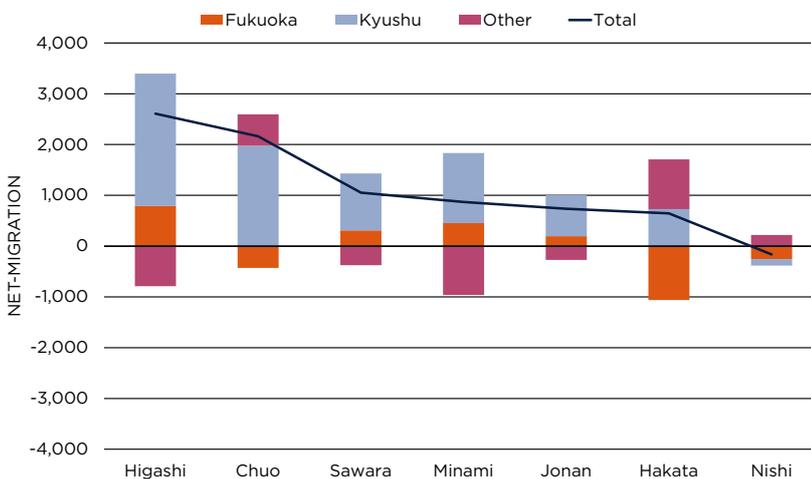
Source Ministry of Land, Infrastructure, Transport, and Tourism, Savills Research & Consultancy
*CAGR stands for compound annual growth rates.

GRAPH 8: Fukuoka Net-migration by Age Group, 2020



Source Ministry of Land, Infrastructure, Transport, and Tourism, Savills Research & Consultancy

GRAPH 9: Fukuoka Net-migration by Origin, 2020



Source Ministry of Land, Infrastructure, Transport, and Tourism, Savills Research & Consultancy

offer “start-up visas” to prospective business operators⁴. Additionally, at places such as Startup Café and Global Startup Center, multilingual staff are able to offer various kinds of support to foreign entrepreneurs, from general consultation to talent-matching services.

Another factor that could support Fukuoka’s further economic growth is tourism. Prior to the pandemic, Fukuoka also benefited from rapid increases in inbound tourists. From 2011 to its peak in 2018, the number of overseas visitors entering through either Fukuoka Airport or Hakata Port increased five-fold. Nearby Asian regions made up the majority of overseas visitors, with South Korea comprising 51% in 2018. In 2018, tourist spending amounted to JPY530 billion, equivalent of about 6% of Fukuoka City’s nominal GDP⁵, up from 4% in 2011. While the pandemic has effectively halted inbound tourism, the city is expected to see further growth in this sector once regional travel resumes.

STRONG POPULATION GROWTH IN CENTRAL AREAS

Looking closely at the ward level, the speed of population growth varies widely within the city. Like other cities, Fukuoka’s central districts such as Hakata ward and Chuo ward have seen particularly strong growth over the past decade (Graph 7).

Analysing net-migration patterns by age and by ward, it is clear that the young 20-to-29-year-old age group is a major driver of the population inflow in Fukuoka, especially into Hakata ward and Chuo ward (Graph 8). This is not surprising as this age group includes many single workers who value proximity to the workplace over apartment size. Meanwhile, Graph 8 also shows that Hakata ward and Chuo ward see a notable outflow of people in the 0-to-9-year-old and 30-to-39-year-old age groups. This trend suggests that once people get married and have children, they tend to move from these bustling central areas to suburbs.

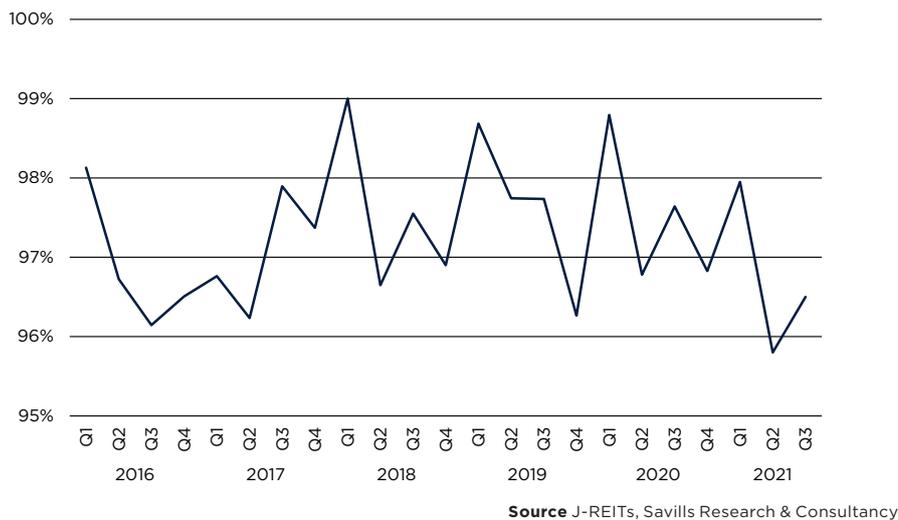
Going forward, Hakata ward and Chuo ward will likely see further growth supported by station-front redevelopments. In Hakata ward, Hakata station underwent a major renovation concurrent with the completion of Kyushu Shinkansen and the building JR Hakata City in 2011, which was further followed by the openings of Kitte Hakata and JRJP Hakata Building in 2016. The ward’s next project, Hakata

⁴ The start-up visas provide foreigners who starts a business a six-month exemption from usual business manager visa capital requirements.
⁵ As of the report date, 2018 GDP figure is the most up-to-date.

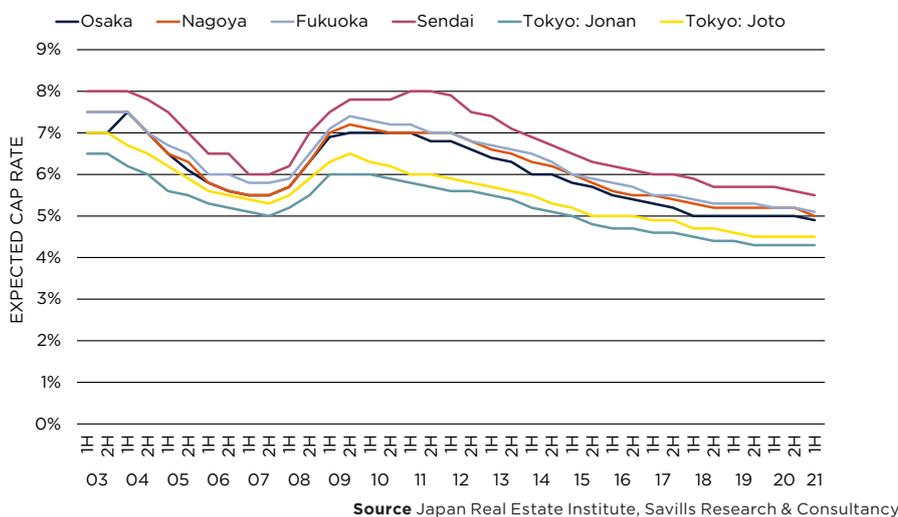
GRAPH 10: Fukuoka Rents, 2016 to Q3/2021



GRAPH 11: Fukuoka Occupancy, 2016 to Q3/2021



GRAPH 12: Expected Cap Rates for Residential Properties, 1H/2003 to 1H/2021



Connected, will see the redevelopment of 20 old buildings over the next ten years. Meanwhile, in Chuo ward, Tenjin is currently undergoing a massive project called Tenjin Big Bang. The Tenjin Big Bang Project covers an 80-hectare area around a 500-meter radius of the Tenjin intersection with plans to redevelop 30 old buildings and create an additional 313,000 sq m of office space by 2024. The aforementioned Startup Café and Fukuoka Growth Next are also located in this ward and currently house many start-up companies.

FUKUOKA RESIDENTIAL LEASING MARKET

The demographic trends discussed in the previous sections have driven residential demand in Fukuoka. Between Q1/2016 and Q3/2021, the average rent in the city has increased by 17% while occupancy rates have been constantly above 96%. Furthermore, unlike Tokyo, the pandemic has not adversely affected Fukuoka’s residential market thus far.

Investment volumes for residential real estate in Fukuoka have been limited partially due to the shortage of well designed, multi-family assets available in the market. Hence, the strong competition for available assets has pushed yields down. According to a semi-annual survey conducted by Japan Real Estate Institute, Fukuoka average multi-family expected cap rates have compressed 180 basis points (bps) since 2012 to reach a record low of 5.2% in 1H/2021. However, multi-family yields in Tokyo are currently at 3.9%, showing that Fukuoka still provides a more attractive level of return to investors. An analysis of J-REIT recent transactions in 2021 indicates that actual yields in the city typically range between 4% and 5%.

Noticeable residential transactions by overseas investors in recent years include the completion of the Anbang Residential Portfolio in May 2020, with JPY28 billion reportedly invested into Fukuoka. Elsewhere, Allianz Real Estate has been active in the residential sector and included Fukuoka as one of the target markets for its newly launched US\$1 billion Japan multi-family fund. It is also rumoured that the company acquired some residential properties in the city as part of a larger portfolio acquisition from Blackstone in 2019.

OUTLOOK

Fukuoka's residential market has been underpinned by the city's strong population growth thus far. Moreover, unlike Tokyo, the pandemic has not significantly affected the city's market fundamentals, and few lifestyle changes have been induced. Indeed, Fukuoka remains attractive with the job and educational opportunities that the city offers as Kyushu's economic and social hub. This is further bolstered by its young demographics, compact and convenient city layout, and accommodating business culture.

Going forward, the population growth that the city is experiencing should continue, especially in the central areas, on the back of the redevelopments around Tenjin and Hakata. These projects plan to add a large amount of new

office and retail space, which should result in more footfall around the areas, and surrounding residential locations should consequently benefit from the increase in vibrancy. Additionally, with the population rapidly ageing in nearby prefectures located in Kyushu and Chubu, Fukuoka is likely to stand out as an attractive city to move to for young people.

Nonetheless, Fukuoka's population growth from natural causes is expected to be negative for the first time in 2021 partially due to the pandemic, although organic growth was a factor that added to the city's stable population climb over the past few decades. Therefore, the city's population growth may slow or become more volatile, as it will have to rely on migration trends which tend to be affected by changes in economic conditions.

Overall, Fukuoka's market fundamentals should remain sound, supported by inflows of young migrants. While opportunities are limited, many overseas investors are eyeing Fukuoka to supplement their residential portfolios in Japan. However, if the recovery of Tokyo's residential market delays further while prices remain elevated, Fukuoka may gain more popularity along with other regional cities.



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